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POSTAL RATE COMMISSION
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**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

POSTAL RATE AND FEE CHANGES

Docket No. R2000-1

**Reply Brief Of
Major Mailers Association**

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Major Mailers Association ("MMA") hereby submits its reply brief. MMA's initial brief explained in detail why the Commission should recommend modest increases of at least 0.2 cents and 0.3 cents, respectively, in the Basic Automation and 3-Digit Automation discounts, rather than the *de facto* reduction in discounts proposed by the Postal Service and why the 4.6 cent heavy weight discount should be extended to First-Class workshare letters weighing between 1 and 2 ounces. MMA anticipated and answered most of the arguments that the Postal Service makes in its initial brief. Therefore, MMA will refer the Commission to the relevant portions of its initial brief ("IB"), as appropriate.

Before addressing the errors and flaws in the arguments that the Postal Service did make, special mention must be made of the features of MMA's proposals that the Service has ignored entirely.¹ A prime example is MMA witnesses' Bentley's and Harrison's proposal that First-Class presort mailers, who have worked hard to ensure success of the Service's Move Update programs, should share in the resulting cost savings. See MMA IB at 22-24. Mr. Bentley calculated that savings of almost 0.9 cents per originating workshared letter should be added to his derived unit workshare cost savings. TR 26/12233, 12298. See also Library Reference MMA-LR-1 at 43.

The Postal Service's response to this proposal has been stony silence. As discussed in MMA's initial brief (at 23) right before this case was filed the Service lauded the results of the Move Update programs in *Memo To Mailers*. After the case was filed, the Postal Service has done its level best to walk away from the special study it commissioned, which found savings of more than **\$1.5 billion in 1998 alone**. *Id.*

¹ Because the Service failed to take issue with these matters in its initial brief, logic and fairness require that the Postal Service be foreclosed from objecting to such proposals in its reply brief.

ABA&NAPM IB at 15-17. Significantly, Mr. Miller filed rebuttal testimony but did not address Mr. Bentley's and Ms. Harrison's testimony regarding either the basis for having presort mailers share in the savings or the derivation of MMA's proposed 0.9 cent increase in automation discounts. Finally, the Postal Service does not even mention this issue on brief.²

Under these circumstances, the Commission can and should conclude that the Service has no objection to implementation of MMA's proposed addition to the presort discounts.³

Argument

I. The Postal Service's Position On The Updating Process Is Not Reasonable

MMA's initial brief explained in detail the dislocation caused by the updating procedures initiated by Order No. 1294 and why the more recent information, which the Postal Service apparently has been interpreted in a manner that favors one of the Postal Service's long term goals -- shifting additional cost burdens from Commercial Standard mailers to First-Class mailers -- is inherently unreliable and ultimately prejudicial to MMA and other mailers. See MMA IB at 2, 27-29.

On brief, the Postal Service tries to have the best of both worlds. Maintaining on the one hand that the Commission should recommend rates and fees based on the FY 1998-based data filed with its case-in-chief and recognizing, correctly, that its use of updated FY1999-based data have resulted in caused due process "concerns" (to say

² The Postal Service's position and subsequent silence on this issue is not surprising. First, Mr. Miller would not admit that there were any savings related to the Move Update program. Second, Mr. Miller did not consider Move Update compliance as a form of worksharing and did not even attempt to study it. Nor was he familiar with the Postal Service's special study. TR 7/3159-61. Third, Mr. Miller took the position that the Move Update program was instituted to fix a one time problem of too much mail being forwarded and returned. Id. TR 7/3129-30. The Postal Service cannot take the position that Americans are suddenly going to stop moving, so obviously the problem is not going away. Moreover, complying with Move Update requirements, which are very time consuming and expensive for workshare mailers (**and in their view not necessary and often counter productive** (TR 26/12227, 12230-32)) are not optional; the Move Update requirements are **mandatory and ongoing**. Finally, as Mr. Miller agreed, a large part of the UAA problem is traceable to Bulk Metered Mail (the Postal Service's benchmark) that is **not** subject to Move Update requirements. TR 7/3161-62.

³ The Postal Service has also failed to address Mr. Bentley's proposals to give workshare mailers tangible credit for cost savings resulting from their preparation and distribution of highly efficient CEM reply mail envelopes and for avoided window service costs. See MMA IB at 22, 24.

the least)⁴, the Postal Service argues on the other hand that the Service must be kept "whole" whichever period the Commission ultimately relies upon. For example, while claiming that the Commission's recommendations must enable it to recover a projected \$400 million revenue deficiency that results from the updating process, the Service still maintains that it should be entitled to recover in rates a provision for contingencies equal to 2.5% of total Test Year costs, as updated.⁵

MMA submits the Postal Service cannot have it both ways. In particular, with respect to the issues of primary concern to presort mailers, the Postal Service concedes as it must⁶ that the cost avoidances of worksharing mail are not accurately captured in the FY1999 updates. As the Postal Service states:

Cost avoidance estimates for worksharing present another example of information that would have been updated more systematically and completely, if adequate time and resources had been available. . . . [C]ertain updates were developed on a piece-meal basis. Full record review, however, was difficult, as evidenced by the adjustment to the procedural schedule **to accommodate late testimony by [MMA] witness Bentley and ABA&NAPM witness Clifton.**

USPS IB at I-11 (emphasis added). The Postal Service's admission is a classic case of understatement. Moreover, in its typically parochial fashion the Postal Service disregards the fact that MMA's and ABA&NAPM's "late" testimony was occasioned by thirteenth hour changes that the Postal Service filed only hours before MMA witness

⁴ Indeed, Section I.A.2. of the Postal Service's brief is entitled "Attempts to create a new base year foundation for test year estimates have resulted in **errors, gaps and due process concerns**" (emphasis added).

⁵ MMA has joined with other parties in filing a separate initial brief on the contingency issues. Those issues will be addressed further in that group's reply brief.

⁶ As ABA NAPM point out (IB at 10-11), the Postal Service admitted as much in its August 18, 2000 Response Of The United States Postal Service To Presiding Officer's Ruling No. R2000-1/116.

Bentley took the witness stand.⁷

If, as MMA anticipates, the Commission elects to use FY1999 data, it must first assure that the information it relies upon is objective and reliable. Mr. Bentley's hastily prepared supplemental testimony presented a veritable laundry list of important, basic concerns about the reliability and representativeness of the updated information. See MMA IB at 27-29. At a minimum, the Commission must address and satisfy itself that there are adequate explanations for each of the problem areas identified by Mr. Bentley, as well as those that Mr. Bentley could not find in the matter of hours that he had to review the data and update his supplemental testimony.⁸

Whatever else it does, the Commission should not allow reasonable increases in the discounts for workshare mailers to become a casualty of the uncertainty and confusion generated by the updating process. Under any reasonable assessment of the record in this case, the Commission must find that the modest increases in workshare discounts proposed by MMA are supported by substantial evidence.

II. The Postal Service's New Methodology For Measuring Workshare Cost Savings Is Fatally Flawed

Even though the Postal Service is proposing to increase both the basic and additional ounce rates for First-Class letters by 1 cent, the Service is not proposing any adjustment in the existing presort discounts, despite the facts that workshare mail already is the most important mail category both in terms of its contribution to institutional cost and maintenance of a financially viable and efficient postal system,

⁷ It is a testament to Mr. Bentley's expertise and hard work that he was able to assimilate, analyze, and file revised analyses on such short notice. But the fact that he did so should not be mistaken for the well-considered analysis that he might have produced if MMA had not been denied the opportunity to conduct discovery. While Mr. Bentley accepted for purposes of his supplemental testimony the revised updated cost data provided by the Postal Service, **he did not rely on that data.** Indeed, he pointed out many of the infirmities associated with that data from his cursory review and recommended that the Commission use his workshare cost savings analysis as originally filed in his Direct Testimony. As a possible alternative, he suggested that the Commission, after making necessary adjustments to the revised updated cost data, could substitute the inputted information into his Library Reference MMA-LR-1, which contains Mr. Bentley's cost derivation model.

⁸ The revised updated data was emailed to Mr. Bentley around 2:00 PM on August 21, 2000. Mr. Bentley filed revised supplemental testimony as soon as the Commission re-opened the very next day and was available for oral cross examination by 9:30 AM.

and is also the mail category most overburdened by institutional costs. See MMA IB at 6-7.

In testimony, USPS witness Fronk attempted to bolster the case for denying workshare mailers any relief with a not so thinly veiled warning that "if the cost data presented [by USPS witness Miller] are the beginning of a new cost trend indicating that the value of worksharing to the Postal Service has peaked, then the mailing community might anticipate smaller discounts in the future." USPS-T-33 at 20, 27; TR 12/4868. Mr. Fronk's warning was challenged and shown up for the puffery that it is;⁹ indeed, Mr. Fronk subsequently sought to disavow his own warning. TR 12/4730.

On brief, the Postal Service understandably omits any mention of Mr. Fronk's ill-considered "warning." Accordingly, the Service is left with the task of providing a "merits" justification for USPS witness Miller's narrow definition of workshare cost savings. As discussed below, the Service's arguments do not pass muster.

MMA has discussed at length the flaws inherent in USPS witness Miller's arbitrarily narrow view of workshare cost savings and his admitted lack of basic knowledge and expertise regarding the way in which workshare mailers prepare their mail, all of which led to his failure to consider relevant cost savings. MMA IB at 11-17.

On brief, the Postal Service attempts to paper over these flaws by characterizing Mr. Miller's methodology as a "refinement" of the Commission-approved method and "improvements" on the work of USPS witnesses in earlier cases. USPS IB at VII-6-7. MMA submits that substituting euphemisms for facts and distorting the record¹⁰ cannot

⁹ See MMA IB at 9-11 and fn 8.

¹⁰ As MMA discusses (IB at 13-14), Mr. Miller's judgment regarding exclusion of certain cost pools from the analysis of workshare cost savings does not square with what witness Hatfield actually did in Docket No. R97-1 and is fundamentally at odds with USPS witness Smith's *specific conclusions* in Docket No. MC95-1 *that platform* costs (among others) "*are, in fact, presort related.*" *Mail Classification Schedule, 1995 (Classification Reform I)*, Docket No. MC95-1, Opinion And Recommended Decision, issued January 26, 1996, at IV-31 (emphasis added). In that regard, the record clearly supports the claim that workshare operations do, in fact, affect platform operations. Since Mr. Miller is totally unaware of what those workshare mail preparation activities include, it is no wonder that he could not find a relationship between worksharing and platform operation costs. It is the Postal Service's failure to even study this relationship that leads it to conclude, erroneously, that workshare savings have significantly decreased since Docket No. R97-1. See MMA IB at 15-18.

serve to mask the many weaknesses and lack of objectivity inherent in the Postal Service's case.

The important facts are unchallenged by the Postal Service. As MMA discussed (IB at 13), there are several very obvious problems with Mr. Miller's narrow definition of cost savings. First there is the problem of possible sampling errors that result due to the loss of accuracy that accompanies the disaggregation of cost data to very low levels. TR 26/12291-92. Mr. Miller never addressed, much less tried to overcome this objection. Undeterred, Postal Service **counsel** claims that Mr. Miller's methodology "avoids overestimating worksharing cost savings"¹¹ and, citing TR 26/12363, characterizes the sampling problems raised by MMA witness Bentley as based on the "novel statistical concept variances due to sampling error could only result in estimates that understate, and never overstate, the savings." USPS IB at VII-73. MMA begs to differ.

Contrary to Postal Service counsel's description, Mr. Bentley never stated any such thing, in the cited passage or elsewhere. What Mr. Bentley did observe was that, for the cost pools Mr. Miller chose to exclude from the analysis of workshare cost savings, when the unit costs were material (i.e. greater than .001 cent), the costs for the benchmark pieces were **always** higher than the costs for workshared mail pieces. TR 7/3126-7. If Mr. Miller's was correct in hypothesizing that worksharing does not impact these cost pools, then one would have expected the computed differences would be quite small and "off" in **both** directions. The fact that workshare letters **always** cost less should have given Mr. Miller some sort of clue that worksharing impacted most, if not all, of the cost pools that he decided to remove from his analysis.

As Mr. Bentley explained in the interrogatory response that the Postal Service incorrectly relies upon:

It might be appropriate to remove a cost pool if the analyst is confident that the unit costs are accurate **and** he/she can provide a reasonable explanation why the unit costs for each category are different, not just that one reflects worksharing activities while another does not. When given an opportunity to do so, Mr. Miller could not.

¹¹ USPS IB at VII-8.

An example may help to illustrate the principles discussed in my testimony. Mr. Miller removed platform costs from consideration in his analysis of workshare savings because he classified them as non-workshare related (fixed). That determination alone was responsible for reducing total Automation workshare cost savings by .468 cents, or 9 percent. If, as Mr. Miller apparently believes, the cost pool data are accurate, then platform costs clearly are significantly affected by worksharing activities. To illustrate this under the Postal Service's cost attribution methodology, platform costs are considerably lower for Automation workshare letters (.293 cents) than for the BMM benchmark (.761 cents). This difference is clearly significant and unexplained except that one category is affected by worksharing and the other is not. Therefore, Mr. Miller should not have removed platform costs from his determination of workshare cost savings.

On the other hand, if costs at the cost pool level are not very accurate, as I believe could be the case, then there would be no harm in leaving such costs in since doing so will not change the derived workshare cost savings if, as Mr. Miller maintains, platform costs are not affected by worksharing. Thus, "when it doubt, it is better to leave costs in the analysis."

TR 26/12363-64. Significantly, the Postal Service now admits (IB at VII-73) that "[I]t may be true that the aggregate costs are more likely to be accurate than the costs for a specific cost pool." However, the Postal Service promptly seeks to blunt the significance of that admission with a convoluted argument about the accuracy of cost pool data, the number of tallies, the unsupported assertion that "all else equal, these cost pools would likely exhibit less error when compared to cost pools that are based on calculations involving fewer tallies" and the illogical conclusion that "[I]f anything the presence of sampling error could be used as a justification for eliminating some cost pools from the worksharing related savings calculations, as witness Miller has done in his direct testimony." MMA submits that such tortured reasoning finds no logical or factual basis in this record; instead it is based solely on the speculation of counsel for the Postal Service. The Commission need look no further than platform costs, for

which there are a high number of tallies,¹² to tumble counsel's house-of-cards argument on this score.

Moreover, as it turns out, Mr. Bentley's belief that there was something inherently wrong with Mr. Miller's approach and his intuition that the key to the problem lay in the fact that the costs for the benchmark were always higher than the costs for workshare mail in the cost pools USPS witness Miller proposed to exclude was right on the money. For example, Mr. Miller's failure to explain why platform costs are different is remarkable, particularly because he claims that the differences are due to factors other than worksharing but performed no study. TR 7/3176-77. In fact, Mr. Miller has no idea what mailers do in order to facilitate the movement of presorted letters within and between post offices because, ***as he conceded repeatedly, he is not an expert on how presort mailers prepare their mail:***

I am not really an expert on presort mailers so I wouldn't know the answer to questions in terms of what they do prior to entering their mail at a postal facility.

TR 7/3149.¹³ As discussed in more detail in MMA's initial brief (at 14-15), the record in this case demonstrates beyond question that mail preparation activities do not include only traying of mail, as Mr. Miller was led to believe, but much, ***much*** more. Such activities definitely do impact mail preparation and platform costs. TR 44/19085-89.¹⁴

¹² As shown in Library Reference USPS-LR-81, the cost pool for platform costs exhibits the fourth highest cost differences out of 52 cost pools. While Mr. Miller could not explain why worksharing reduces platform costs, simply because he is unaware of worksharing mail preparation activities, MMA witnesses Harrison and Bentley clearly explain that sorting and labeling presorted trays of letters on pallets reduces Postal Service platform costs. TR 26/12246-50, 12370-772; TR 44/19085-90. See MMA IB at 14-17.

¹³ See MMA IB at 14. MMA still finds it ***inconceivable*** that the Postal Service witness responsible for deriving workshare cost savings, affecting billions of dollars, does not know, or understand what worksharing activities are performed by mailers before the mail is provided to the Postal Service. What remains even more astounding to MMA is how, without any knowledge of such activities, Mr. Miller had the temerity to unilaterally declare, categorically, that mail preparation activities are "unrelated to worksharing."

¹⁴ Specifically, MMA witnesses Harrison and Bentley discussed the First-Class workshare mail preparation regulations as they currently exist and are administered. See TR 26/12240-41, 12246-12250, 12370-72. Their testimony demonstrates that workshare mailers must comply with a vast array of prerequisite requirements relating to design of the mailing piece itself and to preparation of letters prior to the time they are deposited with the Postal Service. See MMA IB at 16.

Moreover, the record shows that the Postal Service has pursued a concerted practice of shifting, from its postal clerks to workshare mailers, the responsibility for jobs that affect mail preparation and platform costs. MMA IB at 16-17. The shifting of such costs is not included in the Postal Service's roll forward model and cannot be reflected by any workshare cost savings analysis on the record. While First-Class presort mailers continue to accept and pay for more and more workload responsibilities that the Service places upon them, they have been under the impression that these efforts would, somehow, be reflected in the discounts they receive. However, under the Service's workshare presentation of cost savings, nothing could be further from the truth. The Commission must rectify this situation or face the real possibility that workshare mailers could forego their worksharing efforts. As MMA witness Harrison testified (TR 26/12239(emphasis added)):

Many MMA companies have serious frustration with the Postal Service's mail preparation requirements. At times there are discussions of whether complying with the ever-changing USPS requirements is cost effective. ***If the postage rate discounts for automation rates are not significant enough, then it is possible that the workshare program could be in jeopardy.***

For all of these reasons, USPS witness Miller's exclusionary approach to determining workshare cost savings arbitrarily denies workshare mailers the credit and reasonable discounts they deserve.

III. There Is No Merit In The Postal Service's Criticisms Of MMA's Measured Workshare Cost Savings

On brief, the Postal Service has criticized MMA witness Bentley and ABA&NAPM witness Clifton for including cost pools that Mr. Miller excluded from his narrowly focused analysis of workshare cost savings. USPS IB at VII-76-78. None of these criticisms is valid.

At the outset, we note that, in an effort to lend some badly needed legitimacy to Mr. Miller's flawed method, Postal Service boasts (e.g. IB at VII-76) that Mr. Miller's analysis is "the only task-driven analysis presented in this docket," and then declares:

It would seem beyond controversy that any cost pool that has been classified as "non-worksharing related fixed" should not have an impact on the savings estimates and should be excluded from the calculations.

That claim points up an obvious **weakness** in Mr. Miller's analysis. While he may have purported to conduct a "task-driven" analysis, Mr. Miller clearly did not understand either the extent or significance of tasks that workshare mailers routinely perform. Indeed, it was his admitted lack of knowledge about the most basic mail preparation requirements and activities, ***all of which have a material effect on mail preparation and platform costs***, that led Mr. Miller to exclude these large cost differences from his calculation of workshare cost savings.

The Postal Service's next claim (IB at VII-77) – that Messrs. Bentley and Clifton disregarded improvements to the Remote Computer Read ("RCR") finalization rate that may account for reduced workshare cost savings -- is just a hypothesis that remains unproven on this record. In fact, a comparison of mail processing costs in FY1998 and FY1999 show that, if anything, the cost differential between BMM and workshare letters has ***remained virtually unchanged***, not decreased as witness Miller hypothesized.¹⁵ Moreover, the Postal Service's reference to an alleged improvement in the RCR rate, from 39% to 52%, is misleading. That improvement was hard wired into the Postal Service's roll forward model, so the fact that more recent data, which incorporate that model, show an improvement is nothing more than a self-fulfilling prophecy. In other words, the improvement occurred because the Postal Service designed the model that way, not because there was any measurable improvement in the real world. In any event, Mr. Bentley's workshare cost savings model incorporates the Postal Service's roll forward model without any adjustments, and therefore, takes into account any expected cost reductions that the Postal Service anticipates for BMM/MML in the test year.

Finally, if, as the Service maintains, the costs of First-Class single piece mail are going down in this case due to savings generated by improved RCR rates, then the Commission should ask why the Postal Service is proposing a 1-cent increase in the First-Class rate, or for that matter, a 1-cent increase in the rate for additional ounces.

¹⁵ The Postal Service indicates that the BMM unit cost decreased 2% between FY 98 and FY 99, from 9.9 cents to 9.7 cents. USPS IB at VII-77. Perhaps there has been a little bit of creative rounding of those numbers. A quick review of the record from the original library references supporting those numbers indicates that the BMM unit costs were 9.87 in FY 98 and 9.76 in FY 99. See Library Reference USPS-LR-I-81 and USPS-LR-I-481. MMA notes further that the unit costs for First-Class Single Piece letters, which are also subjected to lower RCR processing, also remained virtually unchanged between FY 98 and FY 99. *Id.*

IV. Contrary To Postal Service Arguments, BMM Is Not An Appropriate Benchmark For Measuring Savings

MMA has explained at length why Bulk Metered Mail ("BMM") is not appropriate. MMA IB at 17-20. On brief the Postal Service's argues that BMM should be used as the benchmark because in Docket No. R97-1, the Commission accepted use of BMM as the benchmark and that is what the Postal Service **claims**¹⁶ to have used in this case. USPS IB at VII-70.¹⁷ In fact, Mr. Miller's benchmark is a nonprebarcoded, nonpresorted automation-compatible letter that meets all the prerequisite design and the mail preparation regulations that current First-Class Automation mail must meet, **including Move Update and reply mail requirements**. MMA contends that no such mail exists in the current mail stream, it never has, and it never will.

At VII-70-71 of its initial brief, the Service states that the costs for sleeving and labeling mail trays are included in Mr. Miller's workshare cost savings analysis and "imbedded" in Mr. Bentley's analysis as well. The Service then points to Mr. Bentley's supplemental testimony (TR 44/19089) as the springboard for concluding "Mr. Bentley's "claim [about certain costs being excluded] accentuates the limitations on Mr. Bentley's understanding of mail processing operations and the IOCS cost pool data upon which he relied for his testimony." *Id.* The Postal Service's argument and claims are very misleading.

Mr. Bentley never said that he did not include cost savings for workshare mail preparation savings in his analysis. To the contrary, he testified as follows:

While the Postal Service's analysis **indirectly** considers cost savings that result from mail piece design activities, it totally disregards cost savings resulting from mail preparation activities. The reason for this is simple:

¹⁶ In the final analysis, the choice of a benchmark has no effect whatsoever on the outcome of Mr. Miller's workshare cost analysis, as he confirmed during cross examination. TR 45/19770-71. In other words, under Mr. Miller's methodology, it makes no difference what benchmark mail (e.g. BMM or MML) is used. **The result will always be the same.** See MMA IB at 17-18.

¹⁷ On brief, the Postal Service proclaims triumphantly that Mr. Miller confirmed the existence of BMM. USPS IB at VII-71. As discussed in the initial briefs of MMA (at 19) and ABA&NAPM (at 18-19), Mr. Miller's claim to have discovered 14.7 **billion** pieces of BMM is absurd on its face and the witness soon back pedaled on that claim. Moreover, the Postal Service's argument about the existence of BMM disregards the important consideration here. In order for a particular mail piece to act as an appropriate benchmark piece, there must be sufficiently large, verifiable volumes of it and it should be the type of mail that is likely to convert to automation mail. BMM as defined by the Postal Service clearly does not meet those standards.

USPS witness Miller's derivation of workshare costs savings does not consider mail preparation or platform activities to be workshare-related.

TR 44/19085-86 (emphasis added). Mr. Bentley testified further that his own workshare cost savings, even as updated "include only a **portion** of the **total** cost savings" – "[s]pecifically . . . mail preparation and platform cost savings totaling \$442 million, equivalent to just under 1.0 cent per piece, **that USPS witness Miller's analysis excluded.**" TR 44/19086 (emphasis added; record citations omitted).

What Mr. Bentley maintained were not included in his analysis (or, obviously, in Mr. Miller's artificially narrow analysis) were substantial, but as-yet-unquantified cost savings resulting from activities that were "transferred" from the Postal Service employees to workshare mailers. As Mr. Bentley explained:

[N]ot all of the mail preparation cost savings have been properly isolated or analyzed by the Postal Service. I am referring to cost savings that the Postal Service will realize by "requiring" workshare mailers to perform mail preparation tasks that postal workers performed in the Base Year but no will longer perform by the Test Year. To the extent such transfers of cost responsibility for mail preparation activities are not captured by the Postal Service's roll-forward model, postal costs for workshare letters will be overstated and workshare cost savings will be understated.

TR 44/19086 (footnote omitted). In sum, the Postal Service's attempt to denigrate Mr. Bentley's knowledge and understanding of mail preparation requirements and workshare mailers activities and the IOCS cost system fails miserably. As discussed above and in MMA's initial brief, on this record USPS witness Mr. Miller is the clear winner in the "lack of critical task-based knowledge" contest.

MMA urges the Commission to reconsider use of BMM and instead adopt Metered Mail Letters ("MML"). As Mr. Bentley testified:

Although a strong argument could be made that an average nonpresort letter is appropriate, to be conservative I urge the Commission to adopt metered mail letters (MML) as the benchmark. Such letters are clean and usually include a typewritten address. MML letters also represent more accurately than BMM the type of mail that actually is migrating from First-Class single piece to automated rates today and will do so in the future.

TR 26/12297. Using MML rather than BMM as the benchmark simply recognizes that mail preparation costs are also avoided by worksharing efforts of presort mailers. Mr. Bentley explained at length why the BMM benchmark has seen its day. TR 26/12294-97, 12348-53, 12358-60, 12365-66; TR 44/19088-90.

V. The Commission's Desire For Reliable Information Regarding The Effect Of Weight On Mail Processing Costs Remains Unanswered For Yet Another Omnibus Rate Proceeding

In discussing general principles applicable to development of First-Class Mail worksharing rate incentives, the Postal Service states "the cost analyses supporting the rates for these rate categories should focus on the reason for the creation of those categories, " citing Postal Rate And Fee Changes, 1984, Docket No. R84-1, issued September 7, 1984, at 363. MMA agrees with this principle¹⁸ and submits that it is equally applicable to issues regarding the USPS witness Daniel's weight study and the misleading claims the Service has made about conclusions the Commission might draw from that study.

The additional ounce rate for 2-ounce letters **should** reflect the reason for the creation of that rate element, i.e., extra weight, but the record demonstrates that the additional ounce rate does not do so.

As Mr. Bentley noted (TR 26/12301), the relationship between weight and cost for 2-ounce letters has "a long, controversial history." In Docket No. R74-1, the

¹⁸ This principle is also applicable to the analysis of workshare cost savings and the derivation of appropriate discounts for presort mail. The Postal Service focuses on cost savings associated with presorting and barcoding. But mail preparation is an **integral** part of those workshare elements. As discussed in MMA's initial brief (at 14-17) and above, the Postal Service analysis disregards a long and growing list of time consuming, expensive activities that First-Class workshare mailers routinely perform. Such activities are above and beyond the limited mail preparation tasks that Mr. Miller assumed for his benchmark BMM mailpiece. As a result, Mr. Miller improperly removes all mail preparation cost savings from his analyses. The Postal Service's discussion (IB at VII-22-24) also shows how the Service has "tiptoeed" around the related issues of setting the discounts high enough to avoid disruption but low enough to reflect the cost savings. The Postal Service can't have it both ways. On the one hand it wants to make workshare cost savings **appear to be** as small as possible. On the other hand, it wants to appear to be magnanimous to mailers by setting discounts at levels that exceed its artificially narrow view of avoided costs. Workshare mailers are not fooled by this shell game and the Commission should not be impressed either. TR 44/19087-90.

Commission established the first degressive rate. As the Commission stated on that occasion:

There can be no question that a degressive letter rate is fairer and more equitable than a rate without degression because it reflects the characteristic that the cost of handling the first ounce is greater than that for succeeding ounces.

Postal Rate And Fee Changes, 1973, Opinion And Recommended Decision, issued August 28, 1975, at 195. Since that time, the degression amount has increased from 1 cent in 1975 to the current 11 cents. TR 26/12301.

In Docket No. R87-1, the Commission concluded that "letters up to two ounces for the most part can be processed on the new automation [equipment] at a cost no higher than a one-ounce letter. *Postal Rate And Fee Changes, 1987*, Opinion And Recommended Decision, issued March 4, 1988, at 448. The Commission also stated that its "ultimate goal" was "to set the degressive rate at a level to reflect cost incurrence," and, due to a lack of reliable evidence regarding the costs associated with the second and subsequent ounces, the Commission directed the Postal Service to provide definitive empirical information on the effect of additional ounces on costs. Op. R87-1 at 443, 439. ***That was thirteen years ago.***

Despite the fact that the Commission repeatedly pressed the Service for this empirical evidence of the effect of weight on the cost to process the second ounce, the Postal Service has failed to provide satisfactory information. As the Commission stated in the last omnibus rate proceeding,

In repeated Opinions, the Commission has urged the Postal Service and other parties to address the cost of processing additional ounces of First-Class Mail. Regrettably, the Service has again failed to respond to this request.

Postal Rate And Fee Changes, 1997, Docket No. R97-1, Opinion And Recommended Decision, issued May 11, 1998, at 301 (citations omitted).

Against this background, at VII-15 of its initial brief, the Postal Service makes the wishful but wholly unsupportable claim:

An additional attribute of witness Daniel's [weight] study is that it provides a basis for evaluating long-standing concerns about a potential disparity between the additional-ounce rate and its underlying costs. As demonstrated by witness Fronk, witness Daniel's study puts to rest the

notion that additional ounces of First-Class Mail are burdened with a disproportionate share of institutional cost burden.

Contrary to Postal Service counsel's view, the Daniel weight study does not put to rest the central question the Commission has been seeking reliable information about for over 25 years. While the Postal Service says one thing, elsewhere in its brief the Service concedes that it has used the Daniel weight study only in the **aggregate** and that the data "provide no reliable basis for establishing different rates for different weight increments." USPS IB VII-14. To MMA that is unobjectionable but it is also a far cry from the overblown claims that Postal Service counsel makes about Ms. Daniel's weight study and the conclusions that may be drawn from it. As the Commission well knows, there are two entirely different issues here:

- ◆ The relationship between costs and total ounces in the aggregate; and
- ◆ The relationship between costs and the second and third ounces for letters.

USPS witness Daniel did study total costs in aggregate and that is the way USPS witness Fronk utilized that study. In other words, Mr. Fronk did not rely upon Ms. Daniel's derived costs for individual weight steps when he developed the Service's proposed degressive rate in this case. His rates were developed by simply dividing total costs in the aggregate by the total ounce increments. Therefore, as far as the practical use to which the Daniel study was actually put in this case, there was no need for the additional work Ms. Daniel performed in "assigning" costs to each weight break on the basis of controversial cost attribution keys and, more importantly, no need for the resulting furor that purely academic exercise produced.

In sum, MMA has no objection to using Ms. Daniel's weight study results in the aggregate, as witness Fronk actually did. The Postal Service claims that "[a]n additional attribute of witness Daniel's study is that it provides a basis for evaluating long-standing concerns about a potential disparity between the additional-ounce rate and its underlying costs." USPS IB VII-15. MMA submits that this might be true for evaluating total additional ounce revenues and costs; but is hardly the case with respect

to the second ounce rate for letters. As Mr. Bentley testified:

[I]f a letter weighing two ounces goes through a piece of machinery and gets sorted the same as a one ounce piece there is no additional cost between processing those two pieces.

TR 26/12377. Mr. Bentley went on to conclude that the current 22-cent rate for the second ounce "is a disproportionately high charge to cover the cost incurred by that second ounce." *Id.*

The Postal Service can't have it both ways by using the study in the aggregate and simultaneously insisting that it demonstrates the existence of any specific relationship whatsoever between individual weight elements and costs.

VI. There Is No Merit In The Service's Objections To MMA's Proposal To Extend The 4.6 cent Heavy Weight Discount To Presort Letters Weighing Over One Ounce

The Postal Service has taken exception to MMA's proposal to extend the current 4.6 cent heavy weight discount to presort letters weighing between one and two ounces. There is no substance in the Service's objections. Accordingly they should not bar Commission consideration and approval of a proposal intended to mitigate somewhat the disproportionately heavy institutional cost burden borne by First-Class workshare mailers.

At VII-82, the Service mischaracterizes MMA's instant proposal as "bear[ing] all the markings of witness Bentley's Docket No. R97-1" proposal, which the Commission rejected. Not true. There are material distinctions between the two proposals. First. Mr. Bentley's R97-1 proposal was very different; it applied to **all** First-Class letters weighing between 1 and 2 ounces, not just to presort letters as his proposal in this case does. Second, adoption of Mr. Bentley's R97-1 proposal would have entailed a change in the rate structure for single piece letters which **might** have been objectionable on the grounds that it could be difficult to administer and might unduly confuse unsophisticated mailers. Mr. Bentley's proposal in this case is very different. The fact that it does not disturb the existing rate structure is one very positive feature of his new proposal. Moreover, because the proposal is applicable to very sophisticated mailers, by definition there can be no legitimate concerns regarding administrative difficulties or mailer confusion.

Third, the Service's proposal to simply reject MMA's proposal is fundamentally unfair, especially in light of the Service's failure to provide the Commission with relevant, reliable information about the specific impact of the 2nd ounce on costs. As the Commission stated:

[A] glaring omission [in the Postal Service's presentation] is information addressing the cost support for the First-Class Mail additional-ounce rate. The Service's failure to devote attention to this long-requested review has hindered the Commission's ability to review the additional-ounce issue.

* * *

Regrettably, the Service has again failed to respond to this [cost of processing additional ounces of First-Class mail] request.

Op. R97-1 at 271, 301. Under these circumstances, which have not changed in the least notwithstanding Ms. Daniel's weight study, the minimum that the Commission should do is extend the heavy weight discount to presort letters between 1 and 2 ounces.

An additional consideration that militates against the Service's just dismiss it on procedural grounds objection is that, although the Commission did reject Mr. Bentley's very different proposal in Docket No. R97-1, it gave no reason for rejecting it.

The Service's related argument (at VII-79) that the Commission rejected a similar proposal in Docket No. R90-1 is also flawed. At that time the Commission had asked for data on the impact of weight on the cost of processing 2-ounce letters **only once**. Since that time, the Commission has requested the necessary information and received nothing in every rate case. Since that information still is not forthcoming and is unlikely to be produced in the foreseeable future, it is high time for the Commission to forge a reasonable compromise that passes on those savings to workshare mailers who deserve the rate relief and can understand a more complex rate structure.

Conclusion

For the foregoing reasons, the Commission should adopt MMA's recommendations for reasonable increases in the discounts for presort mail and extension of the heavy weight discount to workshare letters weighing between 1 and 2 ounces.

Respectfully submitted,

Major Mailers Association

By: 

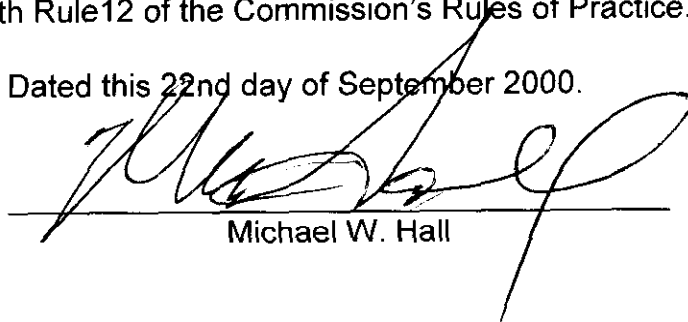
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Dated: Round Hill, Virginia
September 22, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties to this proceeding, in compliance with Rule 12 of the Commission's Rules of Practice.

Dated this 22nd day of September 2000.

A handwritten signature in black ink, appearing to read 'Michael W. Hall', is written over a horizontal line. The signature is stylized with a large loop at the end.

Michael W. Hall